

OPCS

Ohio Pooled Collateral System

CPIM - Cleveland

October 17, 2019

OPCS Overview

- The Ohio Pooled Collateral System (OPCS) authorizes banks to pool collateral for Ohio Public Units' (PU) deposits through a program developed and administered through the Treasurer of State (TOS).
- Primary benefit of OPCS is enhanced oversight and transparency.
 - Every bank, every account, every day.
- 56 participating banks, 6,000 public units, over \$12 billion in deposits, and over \$13 billion in collateral pledged.

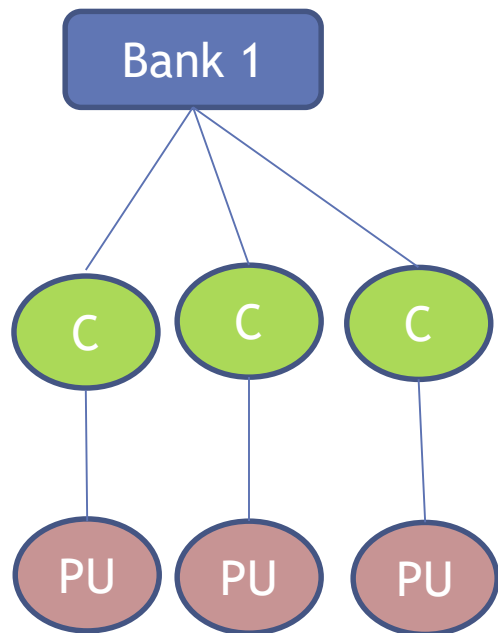
OPCS Overview

Two types of Collateralization:

Option 1: Specific Pledge

Individually collateralize all public deposits at a minimum of 105% via the specific pledge method.

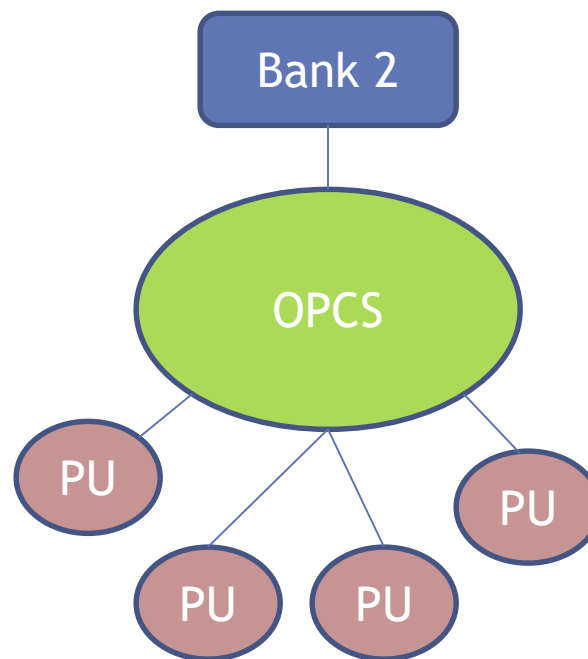
Specific Pledge



Option 2: Pool Collateral

Participate in OPCS to pool collateral at 102%, or at rate set by TOS in rule. Public Units can request higher collateral amounts.

OPCS



Mechanics of OPCS

- Banks send TOS daily files. TOS reviews the files/accounts.
- TOS Trust Department has 5 staff that monitor pledged collateral daily.

Drill Down	Financial Institution *	OPCS Process Date	PU Demographic File				Daily Balance File	
			Received	File Type	Sequence	Processed	Received	File Type
...	██████████	03/11/2019	3/12/2019 8:16 AM	O	1	3/12/2019 8:16 AM	3/12/2019 8:15 AM	O
...	██████████	03/11/2019	3/12/2019 8:31 AM	O	1	3/12/2019 8:31 AM	3/12/2019 8:39 AM	O
...	██████████	03/11/2019	3/12/2019 8:39 AM	O	1	3/12/2019 8:39 AM	3/12/2019 8:39 AM	O
...	██████████	03/11/2019	3/12/2019 8:34 AM	O	1	3/12/2019 8:34 AM	3/12/2019 8:33 AM	O

- File Deadlines
 - 9:00 am – daily file from banks uploaded; collateral position uploaded
 - 10:00 am – TOS performs an analysis for prior-day activity
 - Post 10:00 a.m. – haven't received bank file then TOS opens a case, sends an email to the PU and contacts the bank to resolve. Same for under collateralized event.

Open Discussion - Topics

- **Past vs Present**
- **Purpose of Audit**
- **Collateralization**
- **Under-Collateralization**
- **Daily notifications**
- **Attestation**
- **General Questions**

Past vs Present – Collateralization was always here.

- **Past history:**

- ◉ The banks collateralized their public unit customers individually
- ◉ Collateral reports were issued quarterly by banks

- **Present:**

- ◉ Banks send files daily by 9:00 a.m.
- ◉ Analysis by TOS occurs at 10:00 a.m.
- ◉ If no file received by bank by 10:00 a.m., TOS contacts bank (TOS opens a case)
- ◉ Under-collateralization event addressed at 10:00 a.m. (TOS opens a case)

- **Benefits:**

- ◉ Daily review by TOS; public units aware of issues on day they occur
- ◉ Public Units can monitor their assets and collateralization more timely
- ◉ Transparency between TOS, the banks and public units

Purpose of Audit – From an Auditor’s View

- **Purpose of Audit: Chapter 2, Section 2-9**
- ◉ Pooled Collateral Requirements (paraphrased)
- ◉ The OPCS is the only legal method for pooled collateral arrangements in Ohio. ... Under this program, public depositories that select the pledging method (Specific Pledge or Pool Collateral), and pledge to the treasurer of state a single pool of eligible securities for the benefit of all public depositors (PUs) to secure the repayment of all uninsured public deposits at the public depository; provided that at all times the total market value of the securities so pledged is at least equal to either of the following:
- ◉ 102% of the total amount of all uninsured public deposits, or
- ◉ An amount determined by TOS...(i.e. lower collateral floor - 50%); TOS reviews the safety and soundness of the public depository as determined by a third-party rating organization. SCALE (Ohio Rev. Code § 135.182(B)(1))
- ◉ If an entity maintains a pool outside of the OPCS, it should be considered non-compliance... Since financial auditors have no basis in determining what the risk of bank failure actually is, every situation of an illegal pool should be treated as a material non-compliance (depending on quantitative materiality of balances).

Collateralization – Who’s job is it anyway?

- **What does it mean and who does it?**
- ◉ Banks are responsible for providing sufficient collateralization of all its public units per the pool amount or per the specific pledge.
- ◉ How? Banks contract with Trustee Banks to hold securities on their behalf. These banks can be qualified Federal Reserve Banks or Federal Home Loan Banks.
- ◉ How much? Banks will need to hold securities equal to or over the amount of assets held at the bank as determined by the TOS. (50%, 102% or higher) That means that the securities amount fluctuates daily.
- ◉ Public units are responsible for making sure that they are collateralized with their bank at the proper percentage - whatever that may be.

Under Collateralization – What now?

- **How did this happen?**

- ⦿ Banks collateralize assets daily based on history, reporting, etc. At the end of the day, there should be enough collateral (by %) to cover the assets at close of business.
- ⦿ However, banks still receive revenue after they have closed their doors for the day. This excess revenue (if a large influx) can put them under the % of collateral needed to cover their assets. When this happens, they are under-collateralized.
- ⦿ TOS will see the under-collateralization on the next business day when the bank files are sent to OPCS. This triggers certain events: a case is opened, the bank is contacted by TOS and the public unit receives an email notification from OPCS.
- ⦿ The banks will purchase additional securities to cover the under-collateralization amount. However, this may not be possible on the same day.

Under Collateralization – How do we correct?

- **Let's correct this!**
- ◉ The banks will purchase additional securities to cover the under-collateralization amount. However, this may not be possible on the same day.
- ◉ TOS will work with the Banks to monitor that collateralization is proper by end-of-day.
- ◉ Public Units also have responsibilities. If they get an email about under-collateralization, they should contact their bank to discuss. They should save communications in an email folder or document telephone conversations to ensure that they took steps to remediate.
- ◉ TOS will follow-up with an email to the public units that the collateralization has been remediated.

Automatic Notifications – New!

- **Daily Notifications**

- ◉ OPCS now has the capability to automatically send notifications to all public units. This feature is standard unless a public unit opts out of the notifications.
- ◉ Public unit will receive a daily email that their accounts are collateralized or that their accounts are under-collateralized.
- ◉ A follow-up email is sent to the public unit when collateral has been established at the proper %.
- ◉ Public units have the ability to opt-out of these notifications.

Attestation

- **Occurs Annually**

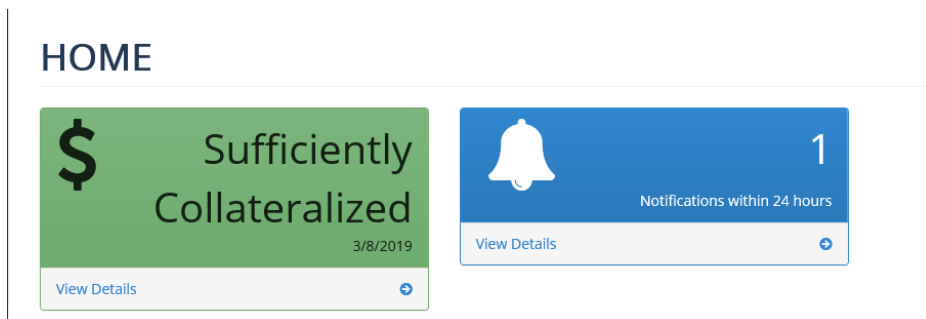
- ◉ OPCS requires an annual attestation by the public units to confirm two things: assets held in the accounts and correct contact information.
- ◉ Prior attestation period was on September 28th and public units had 60 days to affirm information.
- ◉ A negative affirmation was enacted if a public unit did not sign into OPCS and attest.
- ◉ TOS opened a case for every issue that resulted from the attestation. This could include - not my bank account; wrong contact information; or balance does not match what I show at the bank.

General Questions

- **Common Questions TOS Receives:**
 - ◉ If I don't log in OPCS daily but my staff logs in, is that good enough?
 - ◉ Are the Auditors going to view the Never Logged In Report?
 - ◉ If the Collateral Sufficiency Report shows that the bank is collateralized on a certain day, does that mean all of my accounts are collateralized, too?
 - ◉ I am seeing a lot of accounts that aren't mine - what do I do?
 - ◉ Can I get a monthly report that shows I'm collateralized?
 - ◉ Do I have to log into every bank to view my accounts or can I see all my accounts in one place in OPCS?
 - ◉ If I have a large deposit but know the money is going out of the bank on the same or next day, do I have to worry about collateralization?
 - ◉ TOS sends letters to every public unit not registered in OPCS or does not have an email address.

Public Unit Roles

- PUs are encouraged to log in daily, review and monitor OPCS reports posted, verify the accuracy of their deposits.
 - TOS is responsible for reporting any discrepancies or under collateralization to the bank and PU. PUs should notify TOS of any discrepancies as well.

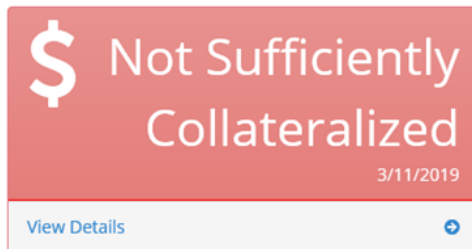


- PUs are required to do an annual attestation of their account details, including deposit balances and contact information.
- PUs may negotiate different collateral requirements for individual accounts with their bank, which may be higher than the statutory collateral requirement.

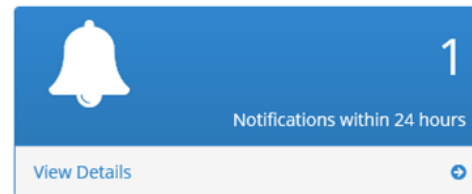
Public Unit Roles

- **Under-Collateralization:**

HOME



A red notification card with a white dollar sign icon on the left. The text reads "Not Sufficiently Collateralized" in white. Below the text is the date "3/11/2019". At the bottom left is a "View Details" link with a right-pointing arrow icon.



A blue notification card with a white bell icon on the left. The number "1" is in the top right corner. Below the icon is the text "Notifications within 24 hours". At the bottom left is a "View Details" link with a right-pointing arrow icon.

- PUs may be under collateralized for several reasons:
 - 1) Large tax revenue deposits.
 - 2) Receipt of state or federal funding.
 - 3) Other unexpected revenues.
- Can be rectified by bank purchasing additional collateral or moving money out of the account.

Best Practices

- **Best Practices**
 - Public Unit should work with their banks and notify them as accurately as possible when tax revenues or grants are going to be deposited.
 - Check OPCS often. Designated signers can create as many read only credentials for the OPCS systems as they like.
 - Create credentials for staff, have them log in and check OPCS.
 - Best time is just after 10a after all reports have been run.
 - Record keeping, especially if a deficiency is found.
 - Call or email the bank, keep good records, work with them to come to a solution.
 - Contact TOS if you have any questions, we're here to help.

Resources

FAQs/Training Manuals: (go to opcs.ohio.gov, FAQ/Help tab)

- <https://opcs.ohio.gov/login#/faqhelp>

Contact info:

- TOS main line, 614-466-2160*, support@opcs.ohio.gov
- Zach Prouty, 614-752-8479, zach.prouty@tos.ohio.gov
- Patrick Castleman, 614-629-8374, Patrick.castleman@tos.ohio.gov
- Jennifer Day, 614-387-2834, Jennifer.day@tos.ohio.gov
- Eric Ochmanek, 614-728-8873, eric.Ochmanek@tos.ohio.gov

ORC/OAC Section:

- 135.182, <http://codes.ohio.gov/orc/135.182v1>
- 135-3-01, <http://codes.ohio.gov/oac/135-3>

Auditor of State Compliance Supplement Manuals (2018):

- <https://www.ohioauditor.gov/references/compliancemanuals.html> (OPCS is Chapter 2, section 2-9)

*We are working on creating an OPCS specific phone number

Questions?



Thank You!

opcs.ohio.gov

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